INVERSE COMMUTATION

A guide for members of the Classic scheme only

The purpose of this guide is to give employees who work for an organisation that is covered by the Research Councils' Pension Scheme (RCPS) arrangements a basic understanding of what Inverse Commutation is and how it is applied.

It does not cover every aspect on how Inverse Commutation is worked out. The full details are contained only in the rules, which are the legal basis of the scheme. You should note that nothing in this booklet can override the rules. In the event of any difference, the rules will apply. Please also note that the inverse commutation factors provided in this guide are subject to change without prior notice.

What is Inverse Commutation?

Inverse Commutation allows individuals the opportunity to give up the whole, or a part, of their lump sum (in multiples of £100 where the whole of the lump sum is not being surrendered) in return for either:

- An increase of an equivalent value in their own pension, or,
- An increase in their own pension plus an increase in the contingent spouse's or civil partner's pension (at half the rate of increase in their own pension).

The option to increase the contingent spouse's or civil partner's pension only applies to the spouse to whom the individual is married or a registered civil partner at the time the option form is signed. An option may not be made to increase just the contingent spouse's or civil partner's pension.

Who may opt?

Inverse Commutation may apply to:

- Benefits payable at or after, the retiring age;

- Benefits brought into payment from age 50 onwards in the case of those with personal circumstances which compel them to give up employment or, as the case may be, prevent them from seeking employment;

- Actuarially reduced benefits;

- Benefits under the approved early retirement category;

- Staff retiring under the compulsory and redundancy category and the flexible category;

- Preserved benefits payable at the retiring age, or brought into payment earlier under the inefficiency provisions.

How does it work for you?

Examples of Inverse Commutation are shown on pages 3 and 4 of this guide. However, if you would like to have a personalised estimate please contact JSS as soon as possible. Any decision to take up Inverse Commutation must be made before your benefits are due to be paid, by completion of the appropriate form. Any delays in submitting the appropriate form will mean that pension benefits may not be paid on time. If you do nothing, your pension benefits will be calculated in the normal way and paid accordingly. A confirmation letter of award details would be issued in either circumstance.

If you hold preserved benefits and you make an option which increases the contingent spouse/civil partners pension, you should provide the full name of your spouse/civil partner in the space provided on the appropriate form. This is because, in the event of your death, the increase in the spouse's/civil partner's pension which you have provided will be paid only to that person. It cannot be transferred to the spouse/civil partner of a subsequent marriage, although such a spouse/civil partner would receive the normal spouse's/civil partner's pension to which she or he was entitled under the Scheme.

Cost of living increases

Any increases in your pension, or preserved pension payable at age 60, will attract cost of living increases in the normal way.

Cost of living increases apply to pensions, including an increase as a result of inverse commutation, from age 55. Where a pension is brought into payment before age 55, the increases accumulate and become payable at that age.

Effect of re-employment

If you return to your former employer your benefits may be affected by the re-employment rules of the Scheme. You are therefore advised to contact JSS before you start work to find out how re-employment may affect you.

Examples of how Inverse Commutation works are shown on pages 3 and 4.

The amount of increase for every £100 of lump sum surrendered is shown in the table on page 5.

Notes:

(i)   *You may not make use of the inverse commutation facility once your benefits have gone into payment.*

(ii)   *Once you have made an option to surrender your lump sum the only occasion when it may be changed is when your marital status or civil partnership changes in the period between making your declaration and when the benefits are due to come into payment. In those circumstances, you would need to contact JSS immediately.*

(iii)   *You should consider carefully both your position and the need for independent financial advice which you are advised to obtain if you are in any doubt as to how an option would affect your personal financial position. Financial advice can be obtained from independent financial advisers authorised under the Financial Services Act 1986. These include firms of accountants, solicitors and independent financial advisers, including pensions consultants. They are listed in the yellow pages of the telephone directory and may be prepared to advise you on a fee-paying basis.*

Other information

You can obtain more information about the pension arrangements from the JSS website: https://jsspensions.nerc.ac.uk/default.asp

Examples of Inverse Commutation

EXAMPLE 1

A member retiring at age 60 with a pension of £8,000 per annum and a lump sum of £24,000 elects to surrender £17,000 of his lump sum in return for an increase in his pension.

A member aged 60 can increase their pension by £4.58 p.a. for each £100 of lump sum surrendered.

Thus, the increase in this example would be:

£4.58 x 170 = £778.60 p.a., giving benefits of £8,778.60 p.a. pension and a lump sum of £7,000.

EXAMPLE 2

A member taking Actuarially Reduced Pension benefits at age 52, with a pension of £9,500 pa and a lump sum of £28,500, elects to surrender the whole of their lump sum in return for an increase in their pension.

A member aged 52 can increase their pension by £3.77 p.a. for each £100 of lump sum surrendered. Thus, the increase in this example would be:

£3.77 x 285 = £1,074.45 p.a., giving benefits of £10,574.45 p.a. pension and no lump sum.

EXAMPLE 3

The member in Example 1 elects to surrender £17,000 of their lump sum to provide an increase in both their own pension and the contingent spouse's/civil partner's pension.

For a member aged 60, the increase in pension for each £100 of lump sum surrendered is reduced to £4.20 where an increase in the contingent spouse's/civil partner's pension is also provided.

The calculation would therefore be as follows:

£4.20 x 170 = £714.00

The member's own pension would, therefore, be increased by £714.00 p.a. to £8,714.00 p.a. (plus a remaining lump sum of £7,000) and their contingent spouse's/civil partner's pension would be increased by

£714.00 ÷ 2 = £357.00 p.a.

EXAMPLE 4

The member in Example 2 elects to surrender the whole of their lump sum to provide an increase in their own pension and the contingent spouse's/civil partner's pension.

For a member aged 52, the increase in pension for each £100 of lump sum surrendered is reduced to £3.52 where an increase in the contingent spouse's/civil partner's pension is also provided.

The calculation would, therefore, be as follows:

£3.52 x 285 = £1,003.20

The member's own pension would, therefore, be increased by £1,003.20 p.a. to £10,503.20 (with no remaining lump sum) and their contingent widower's/civil partner's pension would be increased by

£1,003.20 ÷ 2 = £501.60 p.a.

Inverse Commutation Factors for classic members

Age at retirement in years and complete months		Member Pension	Member and Spouse
from	to		
50 years 0 months	50 years 5 months	3.62	3.40
50 years 6 months	50 years 11 months	3.65	3.43
51 years 0 months	51 years 5 months	3.69	3.46
51 years 6 months	51 years 11 months	3.73	3.49
52 years 0 months	52 years 5 months	3.77	3.52
52 years 6 months	52 years 11 months	3.81	3.56
53 years 0 months	53 years 5 months	3.85	3.59
53 years 6 months	53 years 11 months	3.89	3.63
54 years 0 months	54 years 5 months	3.94	3.67
54 years 6 months	54 years 11 months	3.98	3.70
55 years 0 months	55 years 5 months	4.03	3.74
55 years 6 months	55 years 11 months	4.08	3.78
56 years 0 months	56 years 5 months	4.12	3.82
56 years 6 months	56 years 11 months	4.18	3.87
57 years 0 months	57 years 5 months	4.23	3.91
57 years 6 months	57 years 11 months	4.28	3.95
58 years 0 months	58 years 5 months	4.34	4.00
58 years 6 months	58 years 11 months	4.40	4.05
59 years 0 months	59 years 5 months	4.45	4.10
59 years 6 months	59 years 11 months	4.52	4.15
60 years 0 months	60 years 5 months	4.58	4.20
60 years 6 months	60 years 11 months	4.65	4.26
61 years 0 months	61 years 5 months	4.71	4.31
61 years 6 months	61 years 11 months	4.78	4.37
62 years 0 months	62 years 5 months	4.86	4.43
62 years 6 months	62 years 11 months	4.93	4.49
63 years 0 months	63 years 5 months	5.01	4.55
63 years 6 months	63 years 11 months	5.09	4.62
64 years 0 months	64 years 5 months	5.17	4.69
64 years 6 months	64 years 11 months	5.26	4.76
65 years 0 months	65 years 5 months	5.35	4.83
65 years 6 months	65 years 11 months	5.44	4.91
66 years 0 months	66 years 5 months	5.54	4.98
66 years 6 months	66 years 11 months	5.64	5.06
67 years 0 months	67 years 5 months	5.74	5.15
67 years 6 months	67 years 11 months	5.85	5.24
68 years 0 months	68 years 5 months	5.96	5.33
68 years 6 months	68 years 11 months	6.08	5.42
69 years 0 months	69 years 5 months	6.20	5.52
69 years 6 months	69 years 11 months	6.33	5.62
70 years 0 months	70 years 5 months	6.46	5.72
70 years 6 months	70 years 11 months	6.60	5.83
71 years 0 months	71 years 5 months	6.74	5.95
71 years 6 months	71 years 11 months	6.89	6.06
72 years 0 months	72 years 5 months	7.05	6.19
72 years 6 months	72 years 11 months	7.22	6.32
73 years 0 months	73 years 5 months	7.39	6.45
73 years 6 months	73 years 11 months	7.57	6.59
74 years 0 months	74 years 5 months	7.75	6.74
74 years 6 months	74 years 11 months	7.95	6.89